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SUBJECT: WELCOMING CODEL McCONNELL TO THE UAE

Sensitive but unclassified; please protect accordingly.

¶1. (U) This is a joint message from Embassy Abu Dhabi and Consulate General Dubai.

¶2. (U) Summary: The U.S. Mission to the United Arab Emirates (UAE) is pleased to welcome CODEL McConnell for a first-hand review of key U.S. priorities here. Our robust relations with the UAE focus on mutual strategic interests throughout the region, as well as our common interest in economic growth and prosperity here and at home. Abu Dhabi, as federal capital and with 93 percent of UAE petroleum reserves, is the focus of our regional security, defense and energy cooperation. Dubai, business capital of the Gulf, has been a key commercial center, and is a vital regional trade and transport hub. You will meet UAE Vice President, Prime Minister and Dubai Ruler Mohammed bin Rashid al Maktoum, a business-oriented leader and the man behind Dubai's recent rise to international prominence. The UAE is an active partner in a broad range of mutual goals, particularly regarding regional stability and security, and is the largest US export market in the Middle East (\$17b in bilateral trade in 2008). Like the rest of the world, the UAE has been hard hit by the economic crisis; but cash-rich Abu Dhabi has been hurt less than Dubai which is more vulnerable to negative international financial pressure given its globalized economy and high level of financial leverage. End summary

Regional Stability

¶3. (SBU) The UAE punches above its weight class as a small and in many ways developing nation with global ambitions -- while living in a rough neighborhood. The citizen population of about 900 thousand (less than 20% of the 5 million residents) faces the myriad challenges of running a complex nation in the 21st century and seeks moderate allies with whom to carve out a stable place in the community of nations. In that context, U.S. relations are traditionally strong and continue to grow. Key U.S. strategic interests throughout the region (involving Iran, Iraq, Pakistan, Afghanistan, terrorism, economics, and more) form the core of our daily dialogue with the UAE.

¶4. (SBU) Our broad and enduring bilateral relations have produced close military engagement and cooperation for two decades; we base key assets in the country, and continually plan and exercise together. Coalition operations in Iraq Afghanistan, and the Horn of Africa rely on that cooperation; the UAE also has its own troops in Afghanistan under the NATO/ISAF banner. A favorite liberty location for the Fifth Fleet, the UAE hosts more US Navy ships, principally at Dubai's Jebel Ali port, than any port outside the United States. Our regional military logistics profile benefits from our UAE hosts who share various facilities throughout the country. Defense coordination is in our common national security interests, and therefore cooperation continues to grow. Following recent UAE purchases, including transport aircraft, air defense and other high value systems, the UAE will be the United States' largest Foreign Military Sales customer this year.

¶5. (SBU) The UAE is intent on cooperating with us to create a stable economic, political, and security environment in a troubled region. Concerned about regional proliferation, the UAE has been responsive on export control issues and we engage on that front

regularly (including a recent review of efforts by a dedicated bilateral Counter-proliferation Task Force). As Abu Dhabi pursues a peaceful nuclear power program -- a sign of its ambitions and a real need for electricity to meet development goals -- it has taken clear steps to cooperate with the US (including signing a Section 123 Agreement) -- and to prevent proliferation, offering a clear regional counterpoint to Iran's nuclear model.

¶6. (SBU) UAE support for Iraq continues to grow, in the forms of debt relief, reciprocal visits, dispatching an Ambassador, and ongoing efforts to use their political influence to bring about stability. Similar focus on shared interests with regard to Lebanon, Israel-Palestinian peace, Afghanistan, Pakistan and elsewhere keep our two nations closely engaged in daily strategic diplomacy. Recent visits by Special Envoys Senator Mitchell and Richard Holbrooke underscored the importance we place on coordination with the UAE on issues as important as Middle East peace and stability in Pakistan/Afghanistan.

Economy, and the World Crisis

¶7. (SBU) In the past five years, the UAE has emerged as an economic powerhouse in the region (our largest export market in the Middle East, with \$15.74b in total exports in 2008) and has attained a commensurate level of political influence. Over 700 U.S. companies operate here in a broad array of fields, with some 550 being based in Dubai and its free zones. Regional leaders look to Abu Dhabi and Dubai for assistance and political support, while Washington and other Western capitals increasingly seek the UAE's views. The strength of relations with the U.S. is evident in the string of high level USG visitors -- including the President in January 2008, as well as multiple cabinet-level visits and senior Congressional

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delegations.

¶8. (SBU) The individual emirates retain significant economic autonomy, which Dubai asserted over the last several years to its benefit. Sheikh Mohammed bin Rashid al Maktoum, UAE Vice President, Prime Minister and Ruler of Dubai, has deliberately pushed Dubai to develop as a "regional model" of business-friendliness and social moderation. Dubai leveraged its limited oil wealth (only 3-4 percent of its GDP) to build the infrastructure to grow and diversify the economy -- Dubai is the regional air transportation hub, and its Jebel Ali port is the 7th largest in the world by container traffic. Dubai has focused on real estate development, infrastructure, trade and transportation, knowledge-based industries, tourism, and finance to sustain its high growth rates of recent years. Dubai has also been the clear leader among the UAE's seven emirates in encouraging direct foreign investment through innovative free zones and a range of business-friendly practices and regulations. Dubai has welcomed and courted US businesses, and hosts many regional headquarters for non-oil, non-defense sector companies (including GE, GM, Microsoft, Ford, Caterpillar, Boeing, and Citicorps).

¶9. (SBU) Despite its resource wealth and exponential growth, the UAE has been affected by the international economic crisis. Stocks have been battered, liquidity is tight and consumer confidence has declined; Dubai, with its non-oil, more globalized economy, has been particularly hard hit. The UAE has taken a number of steps to restore confidence: insuring bank deposits, creating a bank liquidity fund, and reassuring the public that the government was ready and willing to support the economy. Despite these steps, investors remain concerned about local market conditions, particularly Dubai's financial situation and the sharp correction in Dubai's large, overheated real estate sector, which had provided the financial engine for much of that emirate's recent development. A recent \$20b bond issue by Dubai, with the UAE Central Bank immediately purchasing \$10b, has helped stabilize the emirate's finances and to restore some confidence that the UAE will address the downturn on a national basis.

¶10. (SBU) For its part, Abu Dhabi's investment portfolio, including the world's largest sovereign wealth fund, the Abu Dhabi Investment Authority (ADIA), has taken a multi-billion dollar hit in recent

months, although a rapid pace of development continues with key projects going forward. The highest profile investments continue to be driven by wholly or partly state-owned entities, with the weaker private sector largely benefiting from the government's largesse. Most here remain optimistic about the UAE's economic future, partly in view of their optimism that U.S. economic fundamentals will remain strong and a close U.S.-UAE relationship will stand them in good stead.

Social Transition

¶11. (SBU) We also engage the UAE on human rights, women's empowerment, trafficking-in-persons, education, and participatory governance. Progress in these fields is notable, with more work to be done in each arena; based on its Tier 2 rating in the Department of State's annual Trafficking in Persons Report, the UAEG is farthest along in the region in addressing this persistent problem. The UAE is justifiably proud of opportunities for women (there are four in the UAE Cabinet, including influential Minister of Foreign Trade Sheikha Lubna al Qassimi). More than 90 percent of female UAE high school graduates attend university; UAE women are increasingly educated, assertive, and free to be choose jobs as diverse as piloting planes or working in the judiciary. That said, family constraints and tradition still limit the choices of some. A very conservative government approach to civil society also puts constraints on NGO activity. The UAE is focused on revamping education, and is working closely with both the USG and US consultants toward that end; all UAE universities teach in English. The UAEG hopes to nurture and train a more skilled national population to support its emergence as a moderate, tolerant, and ambitious state with a clear Islamic identity; these social forces will continue to interact in a dynamic evolution as the nation defines its future course.

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